BANK OF CANADA
BANQUE DU CANADA

BUILDING ON EXCELLENCE

Strength, Stability and Confidence

Medium-Term Plan 2013-15

The Bank's Compass

As a public institution and a workplace, we take our bearings from our commitment to Canadians, to excellence and to one another.

Our commitment to Canadians

To promote the economic and financial welfare of Canada, we

- conduct monetary policy in a way that fosters confidence in the value of money
- promote the safety and efficiency of Canada's financial system
- supply quality bank notes that are readily accepted and secure against counterfeiting
- provide efficient and effective funds-management services
- communicate our objectives openly and effectively and stand accountable for our actions

Our commitment to excellence

Building on our strengths, we aim to meet our commitment to Canadians through performance that is second to none among the central banks of the world.

We strive for excellence through leading-edge research and analysis, through partnerships within the Bank and with outside organizations, and through

- innovation in all aspects of our work
- leadership that spurs us on to new success
- integrity in our business and in our actions
- diversity of people and ideas

Our commitment to one another

We aim to achieve our best in a workplace where we

- communicate clearly and openly
- share knowledge and experience
- develop our talents and careers
- recognize those who live up to our commitments
- respect one another and our lives outside work

Contents

Governor's Message 1
Strategic Priorities 3
Human Resources (HR) Plan 6
Infrastructure and Resilience Plan 8
Financial Plan 10

"Achieving these priorities takes an engaged and motivated workforce, equipped with the skills, tools and work environment it needs."

—Mark Carney
Governor, Bank of Canada

Governor's Message

As its title—*Building on Excellence: Strength, Stability and Confidence*—suggests, our new Medium-Term Plan (MTP) builds on what we have accomplished in the plans that preceded it.

Strength, stability and confidence are hallmarks of our work, and they are more important than ever to Canadians and therefore to the Bank.

The economic and financial turbulence since 2008 has underscored the important role that the Bank plays in the Canadian economy. Canadians have placed their confidence in us, and we must continue to meet their expectations. Canada was the first G-7 country to recover from the crisis and reach pre-recession levels of jobs and output. With strong domestic fundamentals, a well-functioning financial system and stimulative monetary and fiscal policies, Canada's economy has fully recovered from the crisis and is now growing.

Yet, the environment remains challenging. We head into this MTP period in a highly volatile global economy marked by an intensifying sovereign debt crisis in Europe, a continuing weak recovery in the United States and slowing growth rates in emerging economies.

At home, the "headwinds" from crisis economies affect our financial markets and Canadians' confidence. A weak export market has forced reliance on domestic demand to maintain momentum. Household debt has risen to record levels. Against this backdrop, we are considering the implications of a low interest rate environment and the most effective use of monetary policy tools.

Our focus has to be on preserving the price stability that we have achieved here in Canada through flexible inflation targeting, and reinforcing our resilient financial system so that markets stay open and operate efficiently. We are applying the lessons of the global financial crisis to enhance the soundness of our financial system.

We are also experiencing shifts in the use of cash. While demand for bank notes continues to grow, payment alternatives are becoming more popular with Canadians. That trend, along with the introduction of longer-lasting polymer notes and lower counterfeiting rates, is prompting us to consider how our currency function should evolve.

As we continue to deliver on our mandate to promote the economic well-being of Canadians, we will focus on three priorities in this MTP:

- We will **perform superior policy analytics** to ensure our policy frameworks are at the forefront of central bank practice. This means ensuring that we have the skilled people, the tools and the capacity to expand our research and analysis in support of our policy objectives.
- We will help to **build a resilient global and domestic financial system**. The Bank can and will exercise its role in Canadian and international efforts to develop and implement regulatory reforms.
- We will **deliver excellent services** to meet the evolving needs of Canadians, financial markets and the Government of Canada. We will continue to live up to high expectations as we change our own business models and adopt new practices to meet these evolving needs.

Achieving these priorities takes an engaged and motivated workforce, equipped with the skills, tools and work environment it needs. This will require strategic investments, carefully managed in the context of federal imperatives for fiscal restraint and consistent with our responsibility to be a careful steward of public funds.

The most significant of these investments, one that will involve everyone who works at the Bank's headquarters, is the program to overhaul and modernize the building. A resilient work facility is critical to the Bank continuing to fulfill its mandate to promote the economic and financial welfare of Canada. Core systems in the Bank's aging head office building have reached the end of their lifespan, and we must address those and other deficiencies that could put our work at risk.

We understand that our head office is part of what makes the Bank a great place to work. Renewing it allows us to maintain and enhance what is best about our building—a well-functioning head office in a single location, downtown and close to Parliament. Renewal will bring some disruption to staff during this medium term and beyond. We will need to work together to meet the challenges.

We must also further develop our technology infrastructure to provide us with the tools to work efficiently, maintain the high security that our business requires and reach and engage Canadians in new ways. As well, we must invest in leadership development and continue to attract and retain the skills and talent we need to perform at our best in the service of Canadians.

Our strategic priorities and investments add up to an ambitious Medium-Term Plan. As with our previous MTPs, it gives us a road map to achieve excellence together as we work to meet its goals. I look forward to another successful journey with you during the next three years.

Strategic Priorities

As the Bank enters the three-year period covered by this plan, our work is influenced by important trends.

Global economic and financial crises have changed the policy environment. They highlight the need for a deeper integration of the interactions between macroeconomic and financial systems. The Bank, with other policy-makers, must consider a wider set of policy tools, as well as their implications and how best to use them. In addition, increased globalization—of goods and services and of financial markets—and the changing balance of power in the global economy continue to affect the Canadian economy.

A great deal of work is needed to develop and implement financial reforms. The global financial crisis highlighted the significance of systemic risks. It also exposed large gaps in the data required for the effective surveillance of the financial system, and for the operation of system-wide policy tools. The Bank is helping to establish robust financial market infrastructures and develop regulation where it is lacking, such as in the shadow banking sector.

There is growth in foreign exchange reserves held in countries around the world, and in the proportion of these in Canadian dollars. The government's funds-management policies and operations will need to evolve to keep pace.

The demand for bank notes is expected to continue to grow, even as alternatives to cash are becoming more popular for retail payments. This trend, together with technological innovations and criminal threats, requires that we stay active in researching bank note security features and other payment options.

Over the past few years, our business continuity plans have been tested by an increase in the frequency and magnitude of disruptive events. This includes more frequent and severe cyber attacks on the computer networks of prominent organizations, such as financial institutions and government departments in Canada and abroad.

The composition of the labour force is shifting. Our workforce and the way we work will need to evolve, as will the skills of staff, to meet changing business needs.

Our infrastructure is aging and requires investment to meet current and future needs. There is a need to modernize our head office so that it meets our needs for resilience, safety and security, now and in the future. Our technology infrastructure—including tools that help us collaborate among ourselves and with our many stakeholders—also requires ongoing investment.

With these trends as a backdrop, we will build on the accomplishments of our past MTPs and focus on three priorities:

- performing superior policy analytics
- building a resilient financial system
- delivering excellent services

Performing superior policy analytics

To remain at the forefront of central bank practice, the Bank will enhance its monetary and financial system policy frameworks through leading-edge research on:

- the interactions between the macroeconomy and the financial system
- the transmission and impact of global economic and financial developments on the Canadian economy

This research will be reflected in our assessment of the economic outlook and risks, and in the policies and operations that support monetary and financial systems.

We will also continue to explore the frontiers of e-money—digital alternatives to cash and their implications for central banks.

Building a resilient financial system

We will help to build a more stable, resilient and efficient financial system, in Canada and abroad, by:

- identifying, assessing and explaining the risks and vulnerabilities in the financial system
- playing a leading role in the development and implementation of system-wide reform
- developing appropriate frameworks and overseeing systemically important market infrastructures

Delivering excellent services

We will enhance our delivery of services to Canadians, the Government of Canada and financial markets, to meet their evolving needs, by:

- completing the *Polymer* series of bank notes
- transforming Currency's business model—to take advantage of lower counterfeiting levels and efficiencies gained by the move to longer-lasting polymer bank notes
- strengthening our management of the government's foreign reserves—with better tools for managing these assets and less reliance on credit-rating agencies

- engaging with our audiences through effective communications that support our policy objectives and enhance the credibility of the institution, and that reflect changing preferences for media, format and channels

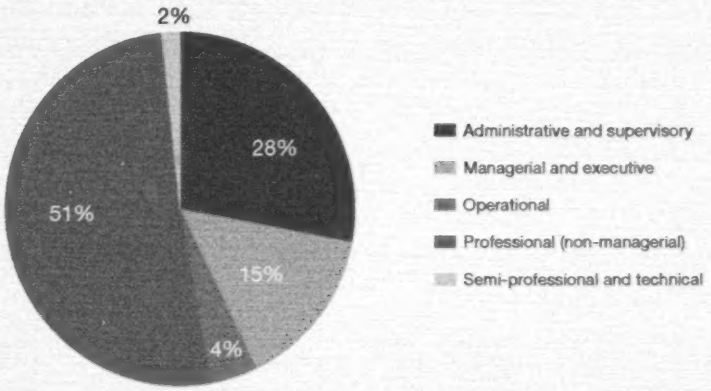
In working to achieve the Bank's mandate and these three priorities, we are supported by three enabling plans:

- human resources plan
- infrastructure and resilience plan
- financial plan

Human Resources (HR) Plan

Meeting our mandated responsibilities depends on our ability to attract and retain highly talented staff—and we made that a focus in our last Medium-Term Plan.

Chart 1: Composition of Bank Staff, by Role



Most employees work at head office in Ottawa and come from a variety of professional and operational backgrounds. They are recruited from across Canada and internationally. Many join as part of the Bank's extensive program of university recruitment for economists and financial sector specialists.

To attract and engage our employees, we provide challenging work and distinctive development opportunities; a superior work environment; and competitive total compensation.

In the next three years, we plan to build on the significant accomplishments achieved during the past medium term. From 2010 to 2012, we introduced a new compensation structure; developed a framework to recruit mid-career economists; established a policy to encourage the professional development of staff through exchanges with other organizations; and achieved designation as a Top 100 Employer in Canada for 2011, 2012 and 2013.

We will continue to face strong competition in hiring people with specialized expertise, particularly for our economics departments. At the same time, we face other shifts in our workforce. For instance, more than 40 per cent of managers have been in their positions for less than two years, owing to changing demographics, restructuring and turnover.

We are focused on strengthening our approach in three areas:

- **Attract:** Improve our recruiting, by:
  - strategically targeting the specialized talent we need
  - developing a pool of prospective mid-career hires who have knowledge in areas of emerging specialization for the Bank, to complement our existing resources
- **Engage:** Equip staff at all levels to meet rapidly changing business needs, by:
  - enhancing the leadership capabilities of our managers and leaders
  - broadening our succession planning
  - promoting wellness to enhance the work environment
  - acting on employee feedback from the tri-annual work environment survey, including the development of resources for career management
- **Modernize service delivery:** Use technology to increase efficiency, by:
  - streamlining business processes and enhancing HR tools

Infrastructure and Resilience Plan

Over the past few years, we have responded to a number of disruptive events, including power outages, earthquakes and pandemic alerts. In our 2010–12 Medium-Term Plan, we set out to enhance our resilience and our business continuity. We split the location of some critical operations to two sites, implemented an enhanced incident management plan, and strengthened our technology infrastructure—with new primary and secondary data centres.

We also made progress in implementing the Information Technology (IT) strategy from the 2010–12 Plan, including new architecture and systems for critical Bank operations, for economic and financial analysis, for currency operations and for corporate administration. Some of the planned work will be completed in 2013–15, including Tri-Agency Database Renewal, IT Infrastructure Upgrade and Evolution, and Enterprise Content Management (ECM) initiatives.

Other areas of investment during the next three years, subject to approvals, include:

- security management and continuity of operations programs
- systems to support our treasury market operations and the management of the government's foreign reserves
- technologies for delivering corporate administration services
- tools and devices for collaboration and mobility
- modernization of bank notes storage, shipping and handling systems

Tri-Agency Database System: developed by the Bank and other federal regulators to collect, validate, manage, and maintain financial data and the financial returns filed by federally regulated deposit-taking Financial Institutions

IT Infrastructure Upgrade and Evolution: a plan to replace and upgrade obsolete network components to reduce the risk of failures and degradation of performance

ECM: a program to enable employees to more easily find, store, and share trustworthy and reliable information

Head Office Renewal

During the course of this medium term, we will also embark on a significant program to renew our head office facility.

The majority of the Bank's 1,200 staff work in the head office facility and it is home to a number of specialized activities. These include $15 billion of payments processed daily by the Bank within the high value payment system; a trading floor that manages more than $600 billion in federal government debt and $68 billion in foreign reserves; specialized currency laboratories; and leading-edge economic and financial analysis.

A resilient work facility is critical for the Bank to continue to fulfill its mandate. Core systems in the building have reached the end of their lifespan. The building is 35 years old: wiring, plumbing, heating and ventilation must be updated. The facility also needs to be brought up to current building, seismic and fire safety standards to provide a safe and healthy work environment for staff. As well, the security needed for our facility has evolved since the 1970s, when the current building was constructed, and must be upgraded.

We will also take this opportunity to improve our workspace to meet current and future business needs. Our renewed facility will have more natural light and fresh air, and will support a more collaborative and flexible work environment. It will be equipped with modernized IT infrastructure for increased productivity. The renewed facility will also be cheaper to operate and more environmentally efficient. This will all be done in the most prudent and cost-effective way.

While the work is being done, most head office staff will be relocated to another downtown facility at 234 Laurier Avenue until 2017. We have a careful plan to ensure that we will continue to deliver on our mandate for Canadians while the building is being renewed.

Financial Plan

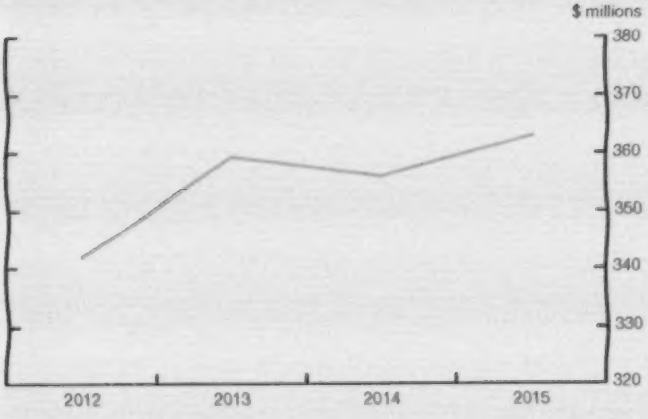
The Financial Plan supports the Bank's desired outcomes and strategic priorities, and incorporates the achievements of past Medium-Term Plans. In developing the Financial Plan, the Bank is focused on carrying out its responsibilities and on ensuring that decision-making supports its legislated mandate. As a public institution, the Bank has always exercised prudent financial management and allocates resources to the priorities that add the most value.

The recently completed MTP included a Corporate Effectiveness Program, which ensured priorities could be met while being consistent with the federal government guidelines on holding expenses at 2010 levels. The Bank met these goals by rationalizing and standardizing some administration and support services. This achieved ongoing savings of $15 million per year and established a more efficient cost base that will continue to benefit the Bank in the future. Additionally, the most recent Medium-Term Plan included investments, such as developing and issuing longer-lasting bank notes and the introduction of new technologies, which will allow us to deliver additional savings during the 2013–15 Plan and beyond.

Looking ahead, the Bank is committed to adhering to the spirit and intent of the government's Deficit Reduction Action Plan, and opportunities to reduce costs are embedded in the 2013–15 Medium-Term Plan. The Plan includes critical investments in people, systems and infrastructure, with a view to ensuring that the Bank can both fulfill its mandate and achieve cost savings.

The Plan has growth of 2 per cent in its operating expenses between 2012 and 2015, or zero real growth consistent with inflation averaging 2 per cent—the Bank's target. This means that real increases needed to ensure that the Bank can fulfill its mandate must be matched with equivalent reductions. The Plan incorporates on-going annual net savings of $17 million by 2014–15. Efficiencies and savings relate mainly to business process improvements such as: the planned transformation of Currency's business model to take into account efficiencies from polymer technology and lower counterfeiting; implementing a new structure for the Canada Savings Bond program; and introducing changes in service delivery models for administration.

Medium-Term Plan 2013–15



Expenses over the life of the Plan are not anticipated to be 2 percent each year, owing to timing of the initiatives to be undertaken. Operating expenses in the first year of the Plan will grow at a rate above 2 per cent, resulting in part from new, non-discretionary operating costs to enhance the Bank's business resilience, such as the new primary and secondary data centres. Also, in the short term, the Bank will make investments to refocus and reconfigure some of its business models and operations to achieve future savings. In 2014, as we begin to realize the benefits of these investments, operating expenses are anticipated to decline from 2013 level.

The following table shows the main elements of our Financial Plan.

Medium-Term Plan Financial Planning Estimates[a]

Planning estimates	2012 budget	2013 MTP	2014 MTP	2015 MTP
	(millions of dollars)			
Operations	318	337	337	349
Strategic investments	24	22	19	14
Operating estimates	342	359	356	363
Capital expenditures	27	27	14	19

a. Excludes the bank note order and non-current deferred employee benefit costs. Also excludes one-time costs associated with enhanced business continuity and the renewal of the head office complex.

Head Office Renewal

As described in the Infrastructure and Resilience Plan, the Bank will embark on a comprehensive program to renew its head office facility during this medium term, which will be managed in a prudent and cost-effective way. The Bank is committed to running this program with effective governance, sound financial management and good stewardship of public funds.

Construction costs are planned at $460 million. Other one-time costs will be incurred that relate to the relocation of Bank staff to a new temporary location.